

Message Text

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12

ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 AID-20 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

FS-01 ABF-01 PA-03 PRS-01 USIA-12 RSR-01 /153 W

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P 091745Z JUL 73

FM AMEMBASSY MADRID

TO SECSTATE WASHDC PRIORITY 6156

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E.O. 11652: N/A

TAGS: EFIN SP

SUBJECT: PESETA-DOLLAR EXCHANGE RATE REMAINS STEADY

1. THE PESETA-DOLLAR EXCHANGE RATE HAS REMAINED ESSENTIALLY STABLE IN THE MIDST OF THE WIDE FLUCTUATIONS TAKING PLACE IN THE EXCHANGE RELATIONSHIPS BETWEEN THE DOLLAR AND OTHER CURRENCIES. THE PESETA-DOLLAR EXCHANGE RATE HAS NOT MOVED MORE THAN FRACTIONALLY FROM THE 58.02 CENTRAL RATE SINCE IT WAS ESTABLISHED FEB 16. A BANK OF SPAIN (THE CENTRAL BANK) OFFICIAL TOLD AN EMBOFF THAT WHILE THERE HAS BEEN SOME INTERVENTION TO MAINTAIN THE RATE IT HAS BEEN OF A MODERATE AMOUNT. PRIVATE BANKING SOURCES ALSO OPINE THAT THE FLOAT HAS BEEN "DIRTY". HOWEVER, NO QUANTIFICATION OF THE VOLUME OF INTERVENTION IS AVAILABLE FROM ANY SOURCE. THE FINANCE MINISTRY UNDER SECRETARY INFORMED AN EMBOFF THAT THE INFLOWS FOR SPECULATIVE PUPOSES ARE OFNO CONSEQUENCE AND THEREFORE THE GOS IS GIVEING NO THOUGHT TO AN ALTERATION OF THE PARITY OF THE PESETA. THE FINANCE MINISTER ALSO PUBLICLY ANNOUNCED LAST FRIDAY THAT THE PESETA WOULD NOT BE REVALUED.

2. THE MINISTRY OF FINANCE AND BANK OF SPAIN OFFICIALS

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ATTRIBUTE THE LOW INFLOWS OF SPECULATIVE SHORT TERM MONEY

TO THE EFFECTIVENESS OF THE RECENTLY ESTABLISHED "A AND B PESETA" EXCHANGE CONTROL SYSTEM. UNDER THIS SYSTEM IT IS VIRTUALLY IMPOSSIBLE FOR SHORT TERM SPECULATIVE MONEY TO ENTER SPAIN SINCE RECONVERSION TO FOREIGN CURRENCIES IS ALMOST IMPOSSIBLE IF ONE WISHES TO SPECULATE SOLELY ON VARIATIONS IN THE EXCHANGE RATE. "A" TYPE PESETAS MAY BE PURCHASED WITH FOREIGN CURRENCY FOR PAYMENTS IN SPAIN BUT MAY NOT BE RECONVERTED TO FOREIGN CURRENCIES OR INTO "B" TYPE PESETAS. "B" TYPE PESETAS WERE CREATED WHEN ALL THE OLD CONVERTIBLE PESETA ACCOUNTS WERE AUTOMATICALLY TRANSFERRED TO THIS CATEGORY. "B" TYPE PESETAS MAY BE CONVERTED TO FOREIGN CURRENCIES FOR PAYMENTS ABROAD, HOWEVER, THEY MAY NOT BE PURCHASED WITH FOREIGN CURRENCIES. WHEN FOREIGN INVESTORS SELL THEIR ASSETS SUCH AS STOCK, IN SPAIN THEY MAY NORMALLY BE CREDITED TO THEIR "B" TYPE PESETA ACCOUNTS. THE NET RESULT OF ALL THIS IS TO LIMIT CONSIDERABLY THE SHORT TERM CONVERTIBILITY OF THE PESETA.

3. APPARENTLY, THE ONLY WAY TO SPECULATE ON THE APPRECIATION OF THE PESETA IS TO CONVERT TO "A" TYPE PESETAS THE FOREIGN CURRENCIES BROUGHT IN FROM ABROAD AND THEN PURCHASE SPANISH SECURITIES ON THE STOCK EXCHANGE AND SUBSEQUENTLY SELL THE SECURITIES, THE PROCEEDS OF WHICH SALE MAY BE CLASSIFIED AS "B" TYPE PESETAS AND SUBSEQUENTLY BE CONVERTED INTO FOREIGN CURRENCIES. THIS PROCESS, HOWEVER, ENTAILS THE ADDITIONAL RISK INVOLVED IN THE MOVEMENT OF THE STOCK MARKET PRICES; IT IS ALSO CUMBERSOME AND SUBJECT TO MANY DELAYS WHICH WOULD WORK AGAINST THE CURRENCY SPECULATOR WHO REQUIRES RAPID EXECUTION OF ORDERS. IN SUMMARY, MOVING MONEY INTO AND OUT OF SPAIN HAS BECOME INCREASINGLY DIFFICULT AND COMPLICATED TO THE POINT WHERE MANY BANKERS DO NOT EVEN UNDERSTAND FULLY HOW TO EFFECTIVELY OPERATE WITHIN THE STRICTURES OF THE NEW REGULATIONS.

4. RESERVES ARE CURRENTLY GROWING AT ABOUT A \$140 MILLION A MONTH (MAY DATA) AND ARE IN THE RANGE OF 5.7 BILLION DOLLARS. THESE RESERVES ARE REPORTEDLY AN EVEN GREATER SOURCE OF PREOCCUPATION, DUE TO THEIR INFLATIONARY EFFECT, FOR THE NEW FINANCE MINISTER BARRERA DE IRIMO THAN FOR HIS PREDECESSOR MONREAL LUQUE. FORTUNATELY, HE HAS NOT HAD LIMITED OFFICIAL USE

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TO DEAL WITH THE ADDITIONAL PROBLEM OF "HOT MONEY" INFLOWS WHICH WOULD ADD TO THE ALREADY SUBSTANTIAL INFLOWS FROM TOURISM AND WORKER REMITTANCES WHICH HAVE CONTRIBUTED SO HEAVILY TO THE RESERVE GROWTH.

5. ANOTHER ASPECT OF THE PROBLEM, HOWEVER, HAS RECENTLY COME TO THE FORE AS A RESULT OF THE PESETA MAINTAINING A RELATIVELY STABLE RATE WITH THE DOLLAR OVER THE PAST

FOUR MONTHS, I.E. THE PESETA HAS DEPRECIATED BY
22PERCENT IN RELATION TO THE GERMAN MARK, BY 18 PERCENT IN
RELATION TO THW SWISS FRANC, 14 PERCENT IN RELATION TO THE FRENCH
FRANC, AND 4 PERCENT IN RELATION TO THE POUND STERLING. THE
CONSEQUENCE IS THAT, WHILE THE EXPORTERS NO LONGER COMPLAIN SO
VOCIFEROUSLY, THE IMPORTERS ARE BECOMING INCREASINGLY
UPSET AND THE INEVITABLE EFFECT ON THE SENSITIVE PROBLEM
OF THE COST OF LIVING (UP 11.1 PERCENT OVER THE 12-MONTH PERIOD
ENDING IN MAY) OF HIGHER COST IMPORTS IS EVEN MORE
DISTURBING, SINCE THESE COUNTRIES PROVIDE IN TOTAL MORE
OF SPAIN'S IMPORTS THAN DOES THE U.S.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 09 JUL 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973MADRID03831
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: MADRID
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730746/aaaabhxs.tel
Line Count: 127
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 26 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26-Sep-2001 by kelleyw0>; APPROVED <30-Nov-2001 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PESETA-DOLLAR EXCHANGE RATE REMAINS STEADY
TAGS: EFIN, SP
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005